



Fairfax County Economic Index

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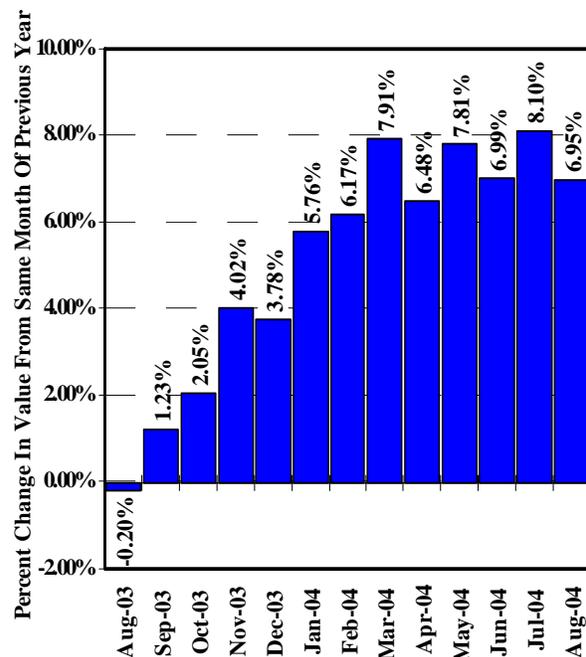
October 2004

Economy Slows Further in August, However Outlook Remains Good

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased in August to 136.35 for a decline of 0.43 percent. While the Index has now declined two months in a row, it was still 6.95 percent higher than in August 2003. On a monthly over-the-year basis, the Coincident Index has increased for twelve consecutive months over last year's same-month values with August 2003 being the last down month. In August, three of the Index's four components were negative.

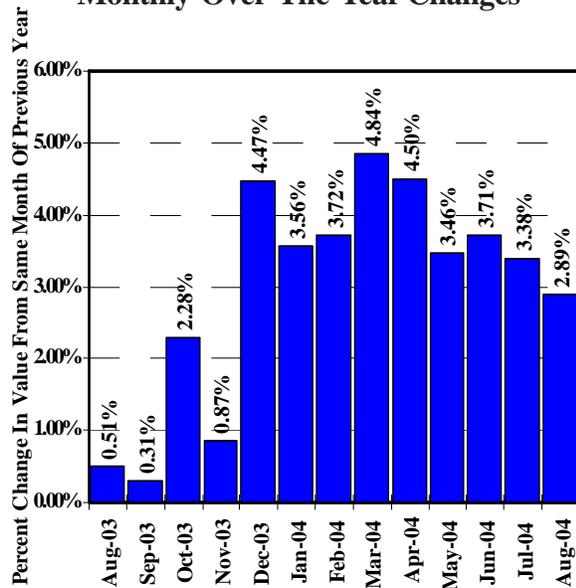
- Consumer confidence (in the present) was down for a second consecutive month following four monthly gains;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a fourth month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, declined after gaining for three months; while,
- Total employment continued to expand extending its positive trend to eighteen months.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Fairfax County Leading Index Monthly-Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, fell to 107.15 in August for a decline of 0.98 percent. Still, the Leading Index continues to track higher exceeding its previous year's same-month values for sixteen consecutive months starting in May 2003. This upward trend is clearly visible in the track of its 12-month moving average line that has moved higher over the past year and now stands just 0.38 percentage points below historic high set in November 2000. In August, three of the Index's five components contributed to its decline.

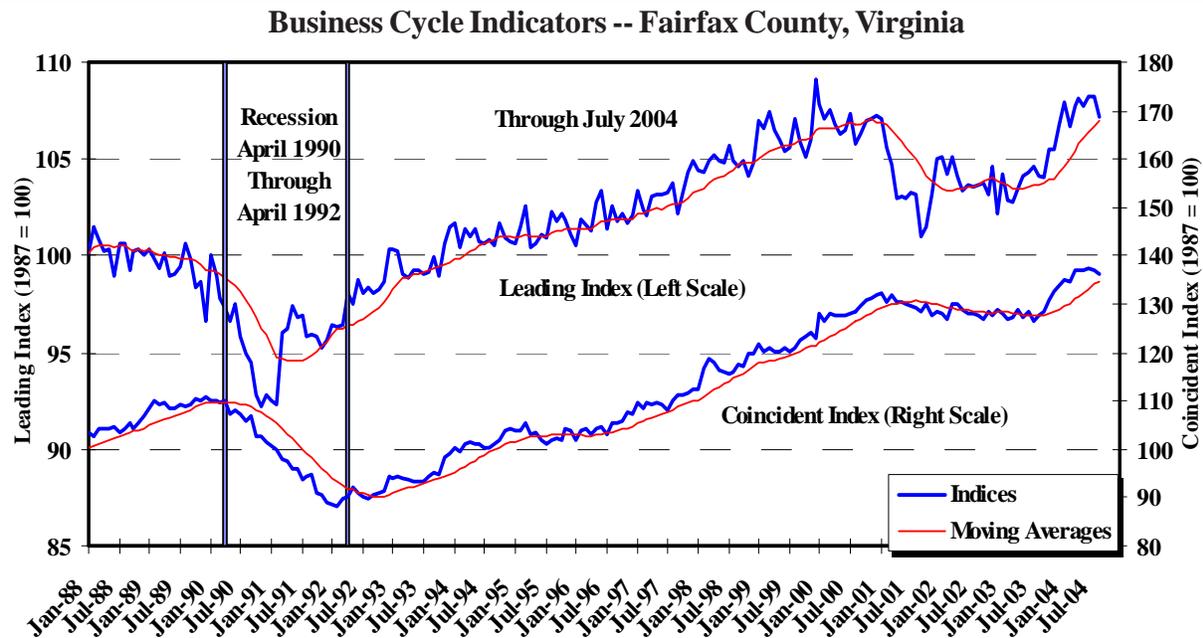
- Consumer expectations (consumer confidence six months hence) declined sharply in August after gaining for three months;
- Residential building permits decreased for the third time in four months; and,
- The total value of residential building permits fell after gaining for the previous two months; while,
- Initial claims for unemployment insurance decreased (improved) for the fifth time in six months; and,
- New automobile registrations were up for the third time in four months.

The Fairfax County economy has experienced a second month of slower growth with a majority of monthly indicators declining from their July levels. Still, the monthly over-the-year trends for the Indices are strongly positive. This "soft patch" reflects a combination of seasonal sales patterns, higher energy costs, continuing concerns regarding the war in Iraq and anxiety over continuing terrorist threats. The summer slowdown in the Fairfax County economy has also been reflected regionally and nationally and many of its causes will be self-correcting with the normal seasonal pick up following Labor Day and end of the political season on November 2nd. As performance and increased certainty take hold of the economy, its underlying strength will drive the trends higher over the forth quarter and these are expected to extend over 2005.

CURRENT CONDITIONS

The "soft patch" that the County's economy has experienced over the summer has been caused by weaker consumer spending. As consumer spending is the source of an estimated two-thirds of gross domestic product at the national level (its contribution to the County's economy is not as easily measured), it is clear that consumer spending is an important driver of local economic activity. With consumer confidence slipping over the summer in response to increased threats of terrorism and rising gasoline prices, retail sales have declined on a month-to-month basis. Interestingly, because of the economy's strong performance this year some of these lost retail sales can be explained by more Fairfax County residents being able to take vacation trips. With more residents being away on vacation, their spending during this absence has benefited other economies at the expense of Fairfax County. Additionally, there has been some deferral of spending for various reasons as seen in weak auto sales. With the new model season and increased buyer incentives, auto sales are likely to pick up during the fall. Also, consumer spending will ramp up now that summer is over and as consumer spending patterns resume normal seasonal trends.

Consumer spending potential depends on job and income growth. The underlying strength of the Fairfax County economy has been established in its job growth trends: August was the 18th consecutive month of job growth in the County. With job growth



Source: Center for Regional Analysis, George Mason University

remaining above 4 percent and the mix of new jobs favoring management and business services, inflation adjusted household income growth in 2004 is expected to be 2.3 percent. With more residents earning more income, it is clear that consumer spending can grow at a faster rate than is currently being registered. As uncertainty diminishes—the end of the Presidential campaign will reduce some of this uncertainty—consumer spending should trend upward quickly with the onset of the holiday season.

NEAR-TERM OUTLOOK

While the Leading Index retreated in August and registered no gain in July, the monthly over-the-year and 12-month moving average trends both point to continuing strong growth going forward. The 16-month upward trend in the Leading Index, with its 10-month lead on the mainstream portions of the economy, suggest that the expansion will continue at least through mid-year 2005. With strong spending trends in federal contracting, technology-based business, and tourism, and with the construction industry expected to experience accelerating gains next year, the outlook is good and could even get better.

The County's tight labor market remains one of its prime constraints. The County's strong job

growth has far outpaced its ability to fill these jobs from its resident population. With unemployment continuing at or below 2 percent this year, and the resident employment base increasing at a 3 percent rate, growing the County employment base at better than 4 percent has placed a strain on the economy's workforce. Therefore, to achieve the economy's full potential, businesses located in Fairfax County have had to become more dependent on non-resident workers—commuters—to satisfy new job demand. As this dependency increases, labor costs are likely to increase, too. With higher operating costs, Fairfax's competitive position relative to adjacent jurisdictions could diminish causing the economy to slowdown. While the availability of a high quality work force remains an important factor shaping the County's economic future, in the near term, the major conditions supporting the economy's continued expansion remain favorable.

Job growth and consumer spending have been the hallmark of the County's economic strength. Through the summer months, the rate of job gain has held relatively constant at 4 percent plus. It was slower consumer spending that temporarily undercut the economy's monthly performance. With the resumption of consumer spending and continued strong job growth, the Fairfax County economy should re-gain its projected 5.2 percent annual economic growth rate by year's end.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Aug-04 Prelim.	Jul-04 Final	Aug-03 Final	Jul-04 to Aug-04	Aug-03 to Aug-04
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	136.35	136.93	127.49	-0.43	6.95
Leading Index (1987 = 100)	107.15	108.22	104.14	-0.98	2.89
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	634,666	631,687	607,704	0.47	4.44
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>634,971</i>	<i>635,237</i>	<i>607,996</i>	<i>-0.04</i>	<i>4.44</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	298	299	271	-0.42	9.99
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>628</i>	<i>610</i>	<i>549</i>	<i>2.98</i>	<i>14.44</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,089	9,391	9,234	-3.22	-1.58
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,335</i>	<i>12,039</i>	<i>11,516</i>	<i>-5.85</i>	<i>-1.57</i>
South Atlantic Consumer Confidence	117.8	127.5	77.2	-7.61	52.59
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,543	5,290	6,068	4.79	-8.66
<i>Automobile Registrations (Unadjusted)</i>	<i>6,266</i>	<i>6,218</i>	<i>6,860</i>	<i>0.77</i>	<i>-8.66</i>
Initial Unemployment Claims (Seasonally Adjusted)	998	1,110	1,420	-10.10	-29.69
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>921</i>	<i>1,111</i>	<i>1,310</i>	<i>-17.10</i>	<i>-29.69</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>95.3</i>	<i>110.9</i>	<i>96.6</i>	<i>-14.07</i>	<i>-1.35</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	504	987	214	-48.94	135.18
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>504</i>	<i>987</i>	<i>241</i>	<i>-48.94</i>	<i>109.13</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	37,721	42,430	21,779	-11.10	73.20
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>53,851</i>	<i>60,516</i>	<i>43,128</i>	<i>-11.01</i>	<i>24.86</i>
Fairfax County Labor Force (Rebenchmarked)					
Total Labor Force (Seasonally Adjusted)	585,728	584,031	568,333	0.29	3.06
<i>Total Labor Force (Unadjusted)</i>	<i>593,806</i>	<i>599,815</i>	<i>576,171</i>	<i>-1.00</i>	<i>3.06</i>
Employed Labor Force (Seasonally Adjusted)	574,154	574,665	553,759	-0.09	3.68
<i>Employed Labor Force (Unadjusted)</i>	<i>581,685</i>	<i>588,054</i>	<i>561,022</i>	<i>-1.08</i>	<i>3.68</i>
Unemployed Labor Force (Seasonally Adjusted)	11,574	9,366	14,574	23.58	-20.59
<i>Unemployed Labor Force (Unadjusted)</i>	<i>12,121</i>	<i>11,761</i>	<i>15,149</i>	<i>3.06</i>	<i>-19.99</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.98	1.60	2.56	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.04</i>	<i>1.96</i>	<i>2.63</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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